

FDIC State Profile

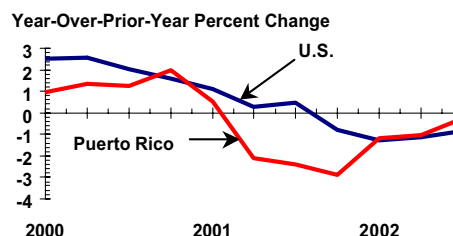
WINTER 2002

Puerto Rico and the US Virgin Islands

The Puerto Rico economy contracted more sharply than the U.S. during the recession. However, the rate of job loss on the island eased considerably during the past year.

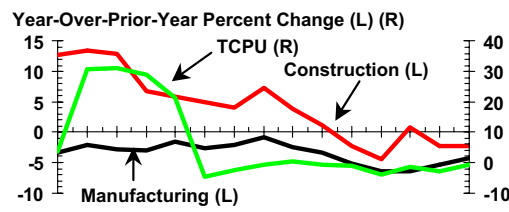
- After declining more sharply than the U.S. during the recession, employment losses in Puerto Rico eased toward the end of 2001 (see **top chart**). The easing is attributed to gains in services and government sector employment.
- Job declines in the island's manufacturing sector, which represents 40 percent of the gross product compared with 17 percent for the United States, have continued at a consistent pace (see **middle chart**). The phase out of section 936 of the U.S. tax code and implementation of trade liberalization policies, such as the North American Free Trade Agreement, have contributed to job losses. Job gains, primarily in the pharmaceutical industry, have only partially offset total manufacturing job losses.
- Puerto Rico's transportation, communication, and public utilities sector has been hurt by a slowdown in airline traffic and cuts in telecommunications and technology jobs. The outlook for a quick turnaround in the island's telecommunications sector is poor.
- Employment in the island's construction sector has trended down during the past two years. Although public construction in schools and infrastructure has been increasing, private construction has declined rapidly. Some of the drop in construction employment reflects the completion of housing projects following Hurricane Georges, which struck Puerto Rico in 1999.
- The economic slowdown in the U.S. and the fear of terrorism has weakened Puerto Rico's tourism industry. Although visitor arrivals to Puerto Rico have been stronger compared with other Caribbean destinations, such as Jamaica and Barbados, hotel occupancy rates, cruise ship visitors, and passenger movement have been down from previous years.
- After holding up well in 2000 and 2001, the U.S. Virgin Island (USVI) economy slowed in 2002. Employment increased over 4 percent annually in 2001, but then declined 2.5 percent annually in the first three quarters of 2002 (see **bottom chart**). Tourism is the most important industry, representing 70 percent of USVI's gross product. The number of tourists fell 7 percent during the first three quarters of this year. Hardest hit was *St. Croix* where hotel

The Rate of Job Loss in Puerto Rico Has Exceeded the U.S.; However, the Island's Rebound Appears Stronger



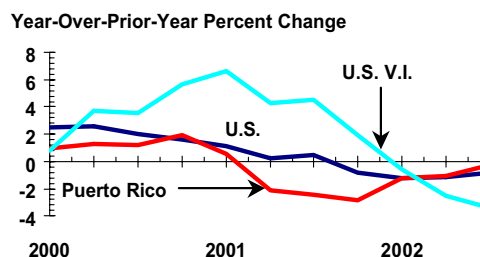
Source: Bureau of Labor Statistics

Sharp Drops in TCPU* and Construction Jobs and Persistent Weakness in Manufacturing Have Hurt Puerto Rico's Employment Growth



Source: Bureau of Labor Statistics. *TCPU refers to transportation, communication, and public utilities.

USVI Employment Growth Has Turned Negative After Holding Up Well During the Recession

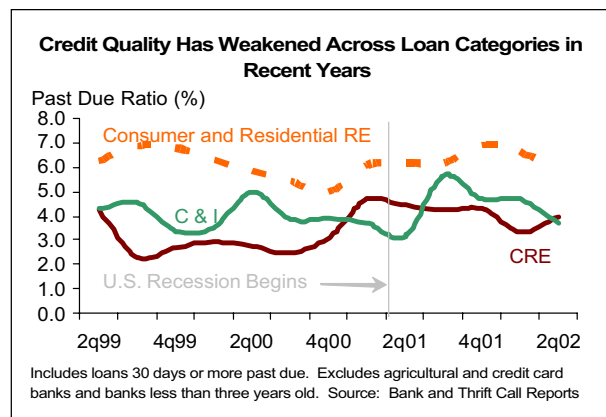
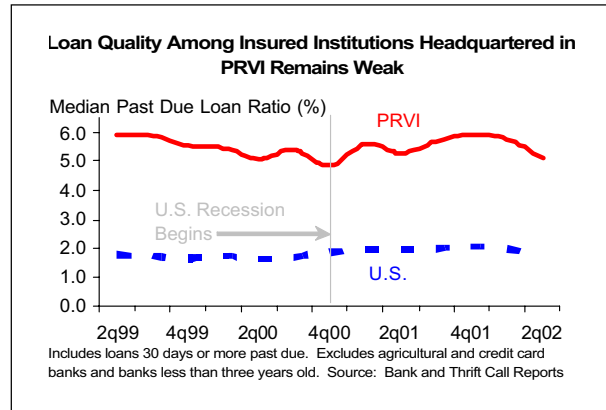


Source: Bureau of Labor Statistics

occupancy rates in August were 34.1 percent, compared with 42.4 percent a year earlier.

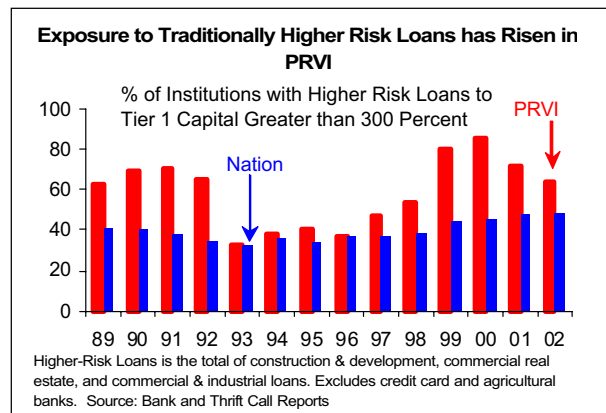
Credit quality among insured institutions headquartered in Puerto Rico/U.S. Virgin Islands (PRVI) remains weaker than that among institutions in the U.S.¹

- The median past-due loan ratio for insured institutions headquartered in PRVI increased moderately during the current economic slowdown. Although the ratio did improve during the first half of 2002, this improvement, in part, can be attributed to an increase in loan charge-offs. The median past-due loan ratio remains well above the U.S. median (see **top chart**).
- Consumer and residential real estate loan delinquency rates have increased since the start of the economic downturn, but have shown recent improvement (see **middle chart**). However, continued job losses in the islands' key industries could have a lagged effect on consumer loan quality.
- After rising sharply at the beginning of the nation's recession, commercial and industrial (C&I) loan delinquency rates among insured institutions headquartered in PRVI have declined. However, C&I credit quality may be adversely affected following an increase in the amount of debt related to business bankruptcies during September 2002.
- Commercial real estate loan delinquency rates have stabilized since the start of the recession, but remain higher than during the late 1990s and 2000.



Exposure to traditionally higher-risk loans has increased among insured institutions headquartered in PRVI.

- The percentage of insured institutions with concentrations of traditionally higher-risk loans of at least 300 percent of capital increased in the late 1990s. While the percentage has moderated in recent years, the percentage remains well above the national level (see **bottom chart**).
- The shift in portfolios toward traditionally higher-risk loans may contribute to continuing weak credit quality. Additionally, as credit quality typically lags the business cycle, loan performance likely will remain weak in coming quarters even if the economic recovery strengthens.



¹ Analysis includes 14 insured institutions headquartered in Puerto Rico and the U.S. Virgin Islands as of June 30, 2002.

State Profile

Puerto Rico/U.S. Virgin Islands at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98
Institutions (#)	14	14	15	15	17
Total Assets (in thousands)	64,185,518	53,239,840	48,411,273	42,389,929	36,434,062
New Institutions (# <3 years)	0	1	1	1	0
New Institutions (# <9 years)	3	3	3	3	2
Capital					
Tier 1 Leverage (median)	5.99	6.81	6.74	6.85	7.39
Asset Quality					
Past-Due and Nonaccrual (median %)	5.12%	5.11%	5.05%	5.72%	6.12%
Past-Due and Nonaccrual \geq 5%	7	7	8	8	12
ALLL/Total Loans (median %)	1.27%	1.26%	1.24%	1.32%	1.40%
ALLL/Noncurrent Loans (median multiple)	0.39	0.44	0.40	0.47	0.35
Net Loan Losses/Loans (aggregate)	1.00%	0.97%	0.92%	0.86%	1.14%
Earnings					
Unprofitable Institutions (#)	3	1	1	1	1
Percent Unprofitable	21.43%	7.14%	6.67%	6.67%	5.88%
Return on Assets (median %)	1.01	0.92	0.83	1.05	1.11
25th Percentile	0.36	0.68	0.68	0.66	0.67
Net Interest Margin (median %)	3.52%	3.76%	4.18%	4.31%	4.87%
Yield on Earning Assets (median)	6.56%	8.03%	8.55%	8.07%	8.73%
Cost of Funding Earning Assets (median)	3.39%	4.82%	4.77%	3.99%	4.24%
Provisions to Avg. Assets (median)	0.32%	0.35%	0.34%	0.32%	0.35%
Noninterest Income to Avg. Assets (median)	0.48%	0.56%	0.63%	0.72%	0.72%
Overhead to Avg. Assets (median)	2.44%	2.29%	2.81%	2.87%	3.44%
Liquidity/Sensitivity					
Loans to Deposits (median %)	89.38%	91.59%	94.87%	85.03%	88.26%
Loans to Assets (median %)	54.78%	59.76%	60.15%	57.62%	57.88%
Brokered Deposits (# of Institutions)	11	11	11	10	10
Bro. Deps./Assets (median for above inst.)	14.76%	5.42%	7.38%	8.69%	8.26%
Noncore Funding to Assets (median)	61.76%	59.60%	60.30%	53.09%	44.30%
Core Funding to Assets (median)	27.08%	31.74%	30.88%	39.48%	48.08%
Bank Class					
State Nonmember	13	13	13	13	14
National	0	0	0	0	0
State Member	1	1	1	1	1
S&L	0	0	0	0	0
Savings Bank	0	0	1	1	2
Mutually Insured	0	0	0	0	0
MSA Distribution					
	# of Inst.	Assets	% Inst.	% Assets	
San Juan-Bayamon PR PMSA	9	51,941,989	64.29%	80.92%	
Mayaguez PR	2	12,044,027	14.29%	18.76%	
No MSA	2	110,207	14.29%	0.17%	
Ponce PR	1	89,295	7.14%	0.14%	